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*Comments and queries regarding this publication may be directed to the Chief of
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Zhang Wenjin May Be Next Foreign Minister¹ (S NF)

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Zhang Wenjin apparently has the inside track on replacing ailing Huang Hua as Foreign Minister. A senior Foreign Ministry official told US Embassy officers that Zhang, currently a Vice Foreign Minister, is likely to take up his new post after he finishes supervising discussions with the United States over the sensitive Taiwan arms sales issue. []

Zhou's Protege

As a young language officer and protege of Zhou Enlai, Zhang assisted in Zhou's negotiations with the Marshall mission in 1945-46. He later accompanied Zhou to the Geneva Conference on Korea and Indochina. []

Zhang participated in meetings with the two Kissinger missions in 1971 and the Haig mission immediately preceding President Nixon's February 1972 visit. He also played an active role in negotiating language for the Shanghai Communique []

Zhang apparently ran afoul of some top leaders in 1973, but Zhou Enlai moved quickly to protect Zhang by appointing him Ambassador to Ottawa, where he served quietly until recalled in late 1977. In January 1978, with Deng Xiaoping running foreign policy, there were good indications Zhang would become Deputy Permanent Representative to the UN during a major reshuffle of China's ambassadors. Zhang instead was appointed to the more substantial post of Vice Foreign Minister responsible for West European affairs, in which capacity he apparently helped prepare for negotiations to normalize relations with the United States. []

Mao's niece and his leftist representative—Vice Foreign Minister Wang Hairong—was nominally responsible for American affairs, but her career and Zhang's intersected in a way that suggests the two were rivals

who monitored their patrons' interests in the developing relationship with the United States. Both Wang and Zhang originally were appointed to the posts of Assistants to the Foreign Minister in May 1972 in what may have been an effort at striking a balance. In December 1978, when the left had suffered setbacks at a watershed plenum of the Central Committee and when the party under Deng's leadership decided to press ahead with US-China normalization, Zhang was abruptly brought in to replace Wang Hairong in the negotiating sessions with Ambassador Woodcock—an indication of Deng's special trust in him. Wang Hairong was sent to a party school—a form of political punishment—and Zhang assumed formal responsibility for American affairs. []

Implications for the United States

Zhang has shown himself to be both conciliatory and tough in his dealings with Washington. Members of the Nixon party portrayed Zhang as mild and cooperative in his dealings. After the May 1979 signing of the Claims and Assets Agreement, however, Zhang said privately that the Chinese suspected that they "had been had" and that this had sparked criticism at the National People's Congress. He implied that China would be more wary in later agreements. []

Under instruction, Zhang can be as abrasive as Foreign Minister Huang, but he is not so uniformly inflexible and dogmatic. The leadership may in fact be using Huang's illness as a pretext to put a more subtle tactician in the Minister's office. []

Zhang's close association with the United States, moreover, suggests that his reported selection reflects a hope in Beijing that current tensions in US-China

¹ This article includes material provided by OCR and has been coordinated with that office. []

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Born 1915; raised in Hebei Province; attended Yanjing University in Beijing and studied in Germany and the Soviet Union; speaks German, English, and perhaps Russian; married to Zhang Ying, who has held several posts in the Foreign Ministry; at least three children; father worked for Chase Manhattan Bank in Tianjin before World War II; a younger brother is an architect in New York, and several cousins, aunts, and uncles have studied or worked in the United States; [redacted]

1945-56	Assisted Zhou Enlai in negotiations with the Marshall mission
1954	Accompanied Zhou to Geneva Conference on Korea and Indochina
1956	Named Director of the Asian Affairs Department
1964	"Adviser to the Foreign Ministry"
1966	Resurfaced as member of Chinese delegation to the first round of Sino-Soviet border negotiations
1971	Named Director of West European, American, and Australasian Affairs Department; participated in the two Kissinger trips to China
1972	Took part in the talks with the Haig mission immediately preceding President Nixon's visit; worked on Shanghai Communiqué during Nixon trip
1973-77	Ambassador to Canada
1978	Named Vice Foreign Minister responsible for West European, American, and Australasian Affairs; took active part in the negotiations leading to the normalization of relations with the United States.

relations can be resolved without any long-lasting damage. Zhang is currently managing discussions on the Taiwan arms sales issue. [redacted]

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Although Zhang apparently has been tapped for the job, his appointment has not yet been publicly confirmed and it is conceivable that it could fall through. A Foreign Ministry spokesman formally denied rumors that Zhang would become the next Ambassador to the United States but apparently was not queried about the Foreign Minister's position. Huang Hua, who missed all official appearances for a month due to his illness, suddenly appeared on 20 January at a party celebrating the 30th anniversary of *China Reconstructs* magazine. Although factional infighting has greatly moderated in recent years, experience suggests that there may well be residual political opposition to Zhang within the ministry as well as the party. [redacted]

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Zhang's expected promotion is given added political importance by an accompanying story that his most trusted subordinates will also advance during the reshuffle. This could bring to the management of China's foreign policy the most openminded, Western-oriented group of officials since 1949 [redacted]

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China: Renewed Interest in the Third World []

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China is devoting greater attention to the Third World in an effort to rejuvenate its own image, distance itself from some US policy initiatives, and expand support for an anti-Soviet "united front." Chinese actions are partly a response to differences with the United States over Taiwan, but Beijing's efforts in the Third World have acquired a logic of their own, mainly because of China's desire to moderate its identification with the West. Beijing is likely to maintain a more active and independent approach to the Third World regardless of the outcome of the Taiwan issue. []

Signs of Change

For the past year, China's emphasis on the Third World has been intended in part to signal to Washington the alternative directions for Chinese policy and implicitly to register displeasure over the Taiwan issue. Essentially, Beijing sought to demonstrate the potential limits on its cooperation with the United States if differences over Taiwan were not resolved. At the same time, however, the Chinese also responded to several US initiatives in the Third World by criticizing Washington for actions that, in Beijing's view, jeopardized an effective international opposition to the Soviet Union. []

Chinese criticism of the United States initially surfaced last year over El Salvador, with Beijing applauding Washington's opposition to Moscow in the Caribbean Basin, while questioning US intentions and sensitivity to local conditions. Beijing obviously sought maneuvering room in case US actions provoked widespread local or international criticism, at the same time hoping to retain some identification with the leftist movements in the region. []

China's public statements, for example, have implicitly condemned the United States as part of their direct

attacks on the USSR and Cuba for "outside interference." Chinese media also replayed without comment statements from the Sandinista and Salvadoran guerrillas that run counter to US positions. []

Concern that identification with the United States could harm the anti-Soviet effort and China's own diplomatic equities has also been reflected in Beijing's approach to southern Africa and the Middle East. Various actions by Israel and South Africa, and vocal Third World criticism thereof, have prompted the Chinese to make increasingly harsh public comments that have usually linked the criticized actions to US support. []

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Beijing also has been more active and independent—in various international forums, where it has spotlighted its Third World interests. North-South economic issues have presented an area where the Chinese could simultaneously work to mitigate division among states opposing the Soviet Union and also burnish their own credentials. At Cancun, for example, Beijing urged the United States and other Western nations to accommodate moderate Third World goals as part of a common strategic and implicitly anti-Soviet interest. China castigated Moscow for its poor record on economic aid and for failing to attend the meeting. Beijing also subsequently chided Washington for its "obduracy" in the face of Chinese advice. []

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At the UN, meanwhile, China gained points with the Third World by advertising its support for Tanzania's Foreign Minister Salim and its opposition to Secretary General Waldheim in the race for the UN's senior leadership position. Indeed, Beijing's UN role drew considerable praise late last year when Foreign Minister Huang Hua and Vice Foreign Minister Gong Dafei toured several African capitals soon after the UN election. []

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Beijing's revitalized campaign for attention to the Third World reflects several motives. On the one hand, the Chinese realize that they could be tarred by their greater identification with the United States if Washington's actions provoke a backlash. The Chinese also know their longtime anti-Soviet stand had been generally regarded—and portrayed by Moscow—as paralleling the US position. For tactical reasons alone, China may feel a need, particularly in such cases as South Africa and Israel, to distance its own position from that of the United States. []

In fact, as the theoretical underpinning for their new emphasis on the Third World, the Chinese have revived Mao Zedong's "Theory of the Three Worlds," which holds that the developing nations constitute the main force to combat imperialism and hegemonism. A return to the theory as a more ideologically orthodox foreign policy position not only is useful for China's international objectives, but also reflects the conservative domestic political climate ushered in by the December 1980 Work Conference. It also coincides with the reemergence of Ji Pengfei and Li Xiannian—two ideological traditionalists—as more prominent spokesmen for China's foreign policy. The influence of their more orthodox views, which would favor greater emphasis on the Third World, suggests that the shift in China's policy will persist irrespective of how the Taiwan question is resolved. []

Policy Tools

This new emphasis has not significantly changed China's commitment of resources to implement its policy goals in the Third World where Chinese economic assistance has been declining since the early 1970s. Beijing lacks military or economic leverage comparable to that of the United States and the USSR in the developing world, although the Chinese have selectively increased the quality and visibility of their aid in certain politically important areas. Moreover, the Chinese are sensitive to complaints about the level of their assistance and have avoided criticizing countries that accept aid from Moscow but have cautioned them about Soviet motives. []

The Chinese use their arms sales programs both to earn foreign exchange and to enhance their foreign policy objectives. Since 1980, when China shifted

from gratis arms aid to arms sales, Beijing has heavily reoriented its military supply relationships toward the Middle East and away from a number of its former and considerably less wealthy recipients in Sub-Saharan Africa. China's willingness to supply Soviet-type military equipment, especially in crisis situations, has enhanced its influence with new clients like Iraq. The Chinese also have maintained several supply relationships with such longtime clients as Pakistan, Tanzania, and Zaire by offering concessionary rates and attractive terms. China has thereby been able to use its arms sales for an increased economic return without damaging its position in key states. []

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During the past year, China also focused its more traditional diplomatic efforts on the Third World. In 1981, Premier Zhao Ziyang undertook the highest level official trip a Chinese leader had ever made to Latin America; he also made three separate trips to Asia. Foreign Minister Huang Hua also traveled to Latin America, to West and Central Africa—ending nearly three years of inattention to that region—and to India. Meanwhile, a steady stream of Third World leaders visited China. []

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Complementing regular governmental activities, the Chinese Communist Party (CCP) is attempting to further develop its network of party-level contacts and to undercut Moscow's claim to be the "natural ally" of the Third World. Since its rapprochement with the Yugoslavian party in 1977, the CCP has gradually moved to establish official relations with a broad spectrum of political parties, focusing particularly on the ruling parties in the Third World. Official relations with parties in the Third World also serve as a conduit for Chinese efforts to encourage an informal grouping of leftists against the Communist Party of the Soviet Union. []

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Prospects

Although a resolution of differences with the United States over the Taiwan issue almost certainly would affect Beijing's approach to US actions in the Third World, the Chinese will still maintain a more active and independent approach in this arena. Such actions will include:

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- Criticizing US support for Israel, South Africa, South Korea, and the military governments in Central America as well as Washington's stand on North-South economic issues.
- Highlighting moderate demands for a "New International Economic Order."
- Publicly supporting "national liberation" movements in the Middle East and southern Africa, albeit with the provision of only limited and highly selected amounts of direct aid; perhaps providing rhetorical backing for similar causes in Latin America.
- Focusing attention on the nonaligned movement and the Group of 77 and their causes in international organizations. [redacted]

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The desire to check, and ultimately to reduce, Soviet influence, however, will remain the linchpin of China's policies in the Third World. Beijing will continue to provide material support to anti-Vietnamese and anti-Soviet resistance in Indochina and Afghanistan and will also continue to furnish military supplies to key states such as Egypt, Sudan, and Pakistan, where it has the avenues and means to help. Moreover, even in areas such as the Middle East, where US policies are the subject of Chinese criticism, Beijing will seek to avoid actions that directly undercut US efforts to counter Moscow's designs. [redacted]

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Vietnam: Life Gets Harder []

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The standard of living throughout Vietnam is lower than at any time during the war. Suffering most are those who depend on the government for their primary or sole support—especially those drawing official salaries who have little opportunity to interact with the private sector. Life is reasonably good, on the other hand, for southern peasants and those who have the skills and motivation to hustle in the private sector. []

Industrial output after the war rose 43 percent from 1975 through 1978, starting from a very low base and boosted by the availability of billions of dollars of Communist and non-Communist aid. During 1978-80, however, industrial output dropped some 15 percent as a result of the cumulative effects of mismanagement, socialization policies that undermined incentives, and shortages of spare parts and raw materials. []

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The Vietnamese most keenly suffer from the limited availability of food, although shortages of nearly everything else are widespread—from the most ordinary consumer goods to fuels, electricity, and transportation services. Government control of what few goods are still readily available has been weakening, and people are increasingly being forced into the free market to survive. Vietnam is likely to turn more to the IMF for help to control the currency problems that have followed the 1981 rises in procurement prices and wages. []

Simultaneously with the development of deficits in food and daily necessities in Vietnam, the USSR by default gained a near-monopoly position as aid donor when China ended its aid and Western donors suspended their programs because of the cruel treatment of the boat people and the invasion of Kampuchea. Moscow, already concerned by a level of aid to allies that has risen to more than \$25 billion a year in recent years, has offered only minimum economic aid and has warded off Hanoi's repeated demands for more. []

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Shortages of Food and Consumer Goods

Grain production, which was 8.9 million tons in the initial full postwar year of 1976, dipped almost 20 percent by 1978 because of bad weather and mismanagement but recovered in 1980. During the same period, however, the population grew by 4.9 million. Official rations, which normally feed about 20 percent of the total population of 55 million, were set at the beginning of the postwar era at an average 15 kilograms per month. By 1979, the average had fallen to less than 10 kilograms. Beginning sometime in 1980, the government increasingly left non-food-growing southerners to live by their own wits and concentrated on collecting food from the Mekong Delta for shipment to the north. []

Growth of the Private Sector

Most Vietnamese found that they could not survive on the official economy alone and, from late 1978 on, turned increasingly to the free market. The government reluctantly sanctioned a wider scope for the private sector and eventually acknowledged that until the economy achieved a higher level of socialist development, free markets could legitimately supply the majority of the people's needs in the south and play a larger role in the north. []

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The private sector has made up enough of the deficits to enable the people to survive. Its sources of supply include grain both legally and illegally withheld from the state by peasants, privately produced consumer goods, consumer items sent by overseas Vietnamese, and goods stolen from state channels. Stealing from the state has become big business for numerous traders and corrupt officials. []

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Some Improvement Last Year

There was a small increase in supplies during 1981. Because of good weather in the north and the effects of a new system of contracts with peasants that allowed them to retain for themselves output above stipulated levels, grain production rose to an officially announced 9.6 million tons. Together with an estimated 750,000 tons of Soviet grain aid and after deductions for various losses and for seed, there was probably enough to provide average rations of at least 10 kilograms per capita per month. The supply of industrial goods may also have risen substantially due to agreements signed with Moscow that called for a 90-percent increase in commodities to be exchanged during 1981-85 compared with 1976-80. There was no improvement in government management, however, and output from industries run by the state declined.

The state's most effective move during 1981 was to compete harder for grain from peasants and for goods from private producers by paying higher prices; the prices for so-called voluntary sales to the state reportedly rose by up to 200 percent depending on locality. At the same time, salaries for workers and officials were supplemented by up to several hundred percent to enable them to buy part of what they needed on the high-priced free market.

To finance these efforts, however, the government had to expand the money supply by about 15 percent. By mid-1981, the rate of inflation had climbed to three digits, according to some reports, driving people to seek refuge in foreign currencies, particularly the dollar. The government tried to gain control over all foreign currency in the country by requiring registration but eventually had to devalue the dong from 2.19 to 9 per dollar. The black market rate reportedly has climbed to 40 dong per dollar.

Prospects for 1982

Prospects for permanent improvement in the economy remain bleak. Hanoi does not have additional resources to throw into economic development in 1982. It is planning to continue last year's policies, hoping that good weather and tighter management will bring results. In an effort to increase production, the government will extend the coverage of the incentive-boosting programs—the contract system in agriculture and piecework wages and increased plant autonomy in industry. A nominal 600,000-ton increase in grain production is planned. On the distribution side, the government will try through administrative controls to curb the corruption and pricing abuses associated with the private sector. Hanoi apparently believes that the size of the private sector cannot yet be reduced without seriously adding to economic hardship.

Vietnam is likely to turn more to the IMF for help. Vietnam still has its second and third tranches in the IMF to draw upon, provided it overcomes its current tardiness in scheduled repayments to the Fund. If Vietnam can stay in good standing with the IMF, numerous special-purpose funds also will be available, such as those for balance-of-payments emergencies.

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Japan's Defense Effort: The Next Step

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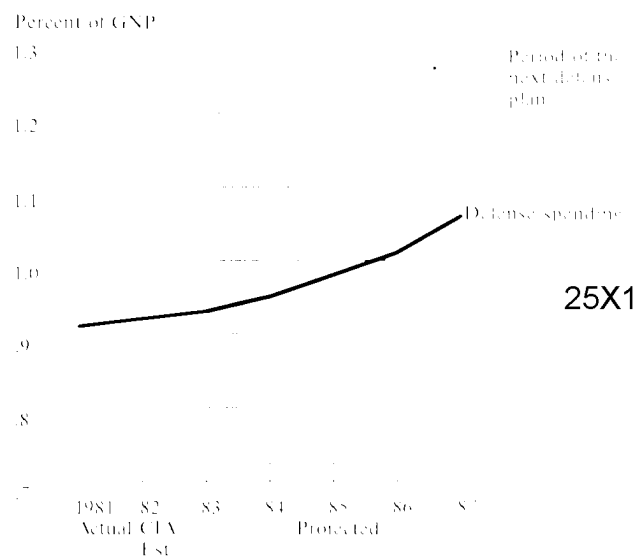
With Diet approval of the defense budget virtually assured, Tokyo's attention has now shifted to planning its defense objectives for the period FY 1983-87. The outcome of the planning will strongly influence Japanese defense spending over the next few years. As was the case with the 7.75-percent increase in the 1982 defense budget, a key factor in the deliberations will be Tokyo's reading of the nature and intensity of US interest. While Tokyo will probably try to keep defense spending below 1 percent of GNP—it is expected to reach .92 percent this year—there is growing sentiment within the ruling party that the ceiling must soon be lifted to permit Japan to take greater responsibility for its own defense.

The Midterm Operations Estimate

The MTOE now under consideration is the second in a series of overlapping five-year plans that are prepared every three years.¹ The MTOE now in effect was treated as an internal Defense Agency working paper, but the Defense Agency hopes to persuade the Cabinet to elevate the new plan to the status of official policy this year.

Each Estimate establishes detailed targets for equipment procurement, organizational changes, personnel increases, and improvements in systems capabilities. Once these targets are set, they are extremely difficult to change until the next planning cycle begins three years later. Although, in principle, progress toward the targets can be accelerated, the history of the last Estimate indicates that it is not easy. Defense Agency spokesmen suggested many times to US officials in the past two or three years that prospects for accelerating the plan were promising, yet movement continued at a fairly steady pace. The increase in the FY 1982 defense budget will be sufficient only to keep the buildup on track.

Japan: Projected Defense Spending as a Share of GNP^a



^a Assumes 4.8 percent average annual increase in real GNP and a moderate acceleration in defense spending above the 1982 level.

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The three services have already held discussions on this year's MTOE with the Defense Policy Bureau of the Defense Agency and will soon be ready to submit finished drafts for approval. The Defense Agency is scheduled to submit a combined draft plan to the cabinet-level National Defense Council in March. This will probably represent the most ambitious version of the plan because the subsequent interministerial coordination process is likely to lower targets and

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spending estimates. Prime Minister Suzuki and the National Defense Council are expected to approve the MTOE in July. [redacted]

defense issue in his own party. It also may presage a significant debate among the party leaders over the pace of defense spending. Even the cautious Suzuki recently noted that Japan may not be able to adhere to the 1-percent ceiling much beyond 1987. [redacted]

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According to press reports the initial service submissions appear ambitious. The Air Force reportedly wants to add 75 to 85 F-15s to the 100 already planned; the Navy hopes to double the programed number of P-3Cs from 45 to 90; and the Army is asking to increase its tank inventory from 1,000 to 1,500. Accounts of the total five-year cost of the service "wish lists" range from \$68 billion to \$91 billion. [redacted]

[redacted]

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The Political Climate

Although Prime Minister Suzuki's fiscal austerity program is coming under fire, he is still pursuing it and wants only a moderate increase in defense spending. He has also suggested to the Defense Agency that defense expenditures should be kept under 1 percent of GNP:

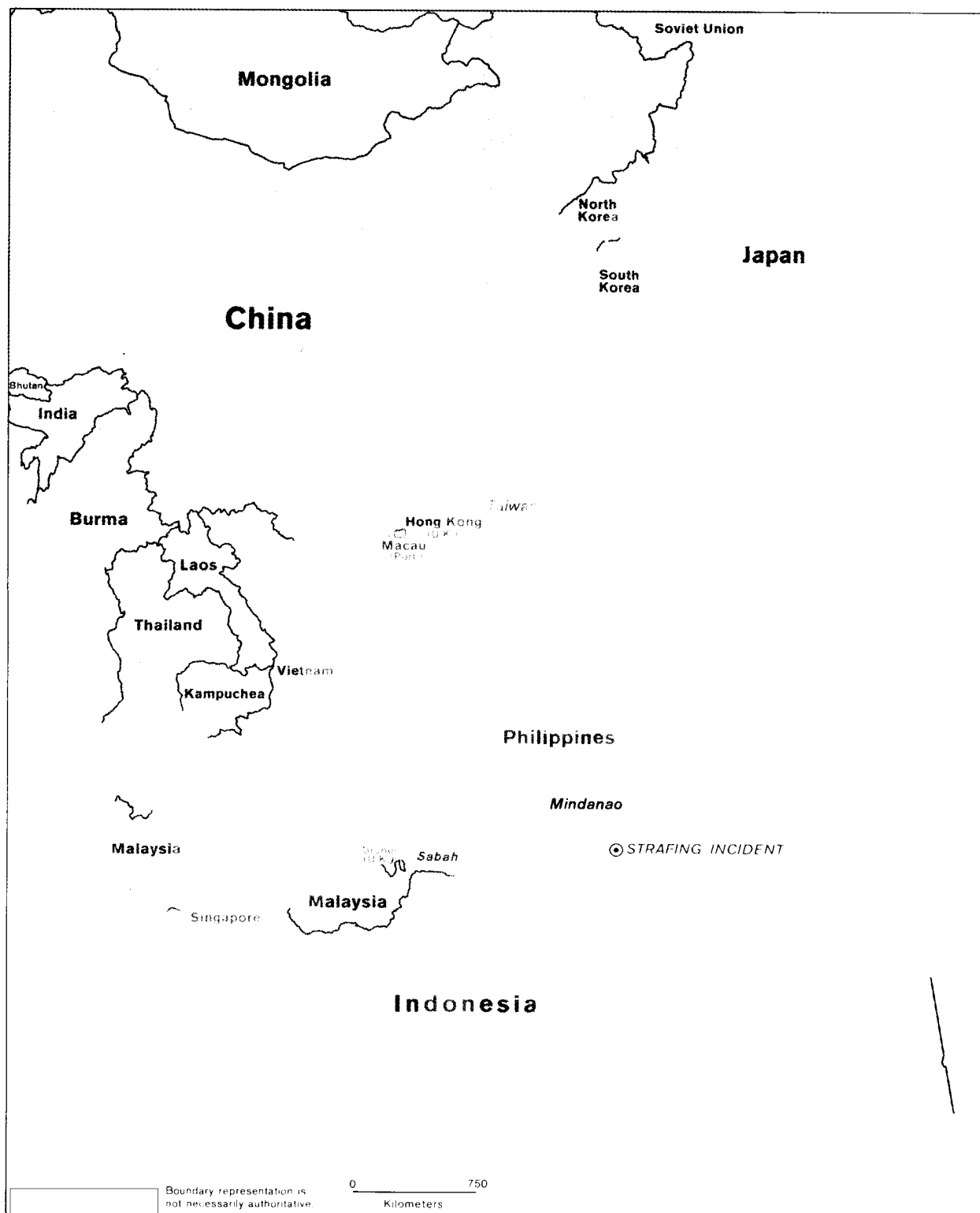
- The 1-percent ceiling was established in 1976 along with the Program Outline to assuage the opposition parties and has since become an important political restraint on defense spending.
- Our projections show that even a moderate acceleration in defense spending increases would exceed the ceiling by 1986 [redacted]

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Although it is still politically risky for a Japanese politician to advocate a dramatic increase in the defense effort, there are a few signs that public opposition to an incremental military buildup is beginning to soften. Despite heavy press criticism of this year's defense budget, ruling Liberal Democrats passed a resolution at their annual convention last week declaring that a defense budget limited to 1 percent of GNP was "undeniably inadequate." This contradiction of Suzuki's personal preference clearly indicates that party pressure was instrumental in determining this year's defense spending and that Suzuki is a follower rather than a leader on the

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Questions Unanswered on Philippine Strafing of Japanese Ship []

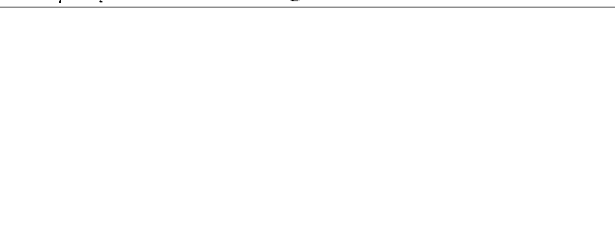
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The attack on the tanker Hegg by Philippine aircraft on 15 January could strain Philippine relations with Japan, but Manila and Tokyo have agreed to play down the incident until Japan's formal investigation is completed. Because of its concern that the incident may have broader implications, Tokyo is holding closely the information uncovered so far. []

Fishy Stories

According to Manila, the Hegg failed to display its flag and was attacked when it refused to heed naval challenges to stop. The Hegg is a Japanese-owned tanker that was chartered by a private South Korean company to deliver a cargo of methanol from Libya.



Tokyo suspects that the tanker may have been involved in some sort of illegal activity. Its investigation is focusing on discrepancies in the stories of the crew. Several crewmen stated that the ship was not flying its flag at the time of attack, as previously claimed by the captain. Interrogation of the crew has also revealed that while loading its cargo in Marsa al-Buraqha, Libya, the crew was taken ashore and driven downtown by government bus. The crew believed that during their absence approximately 20 men - possibly Libyans - may have boarded the vessel. []

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The captain has not provided Japanese investigators with a valid explanation of why the ship was in waters off Mindanao. His original route from Libya to South Korea was through the Straits of Malacca, with a stop in Singapore. The captain later amended the route to include stops in Malaysia and southern Mindanao. It

is not clear from the interrogations if the ship had already stopped in southern Mindanao, a traditional infiltration point for arms moving from Malaysia to the Muslim insurgents. []

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Although Tokyo has permitted the tanker to proceed to South Korea, Japanese authorities have remained on the ship and will continue their investigation on its return to Japan. []

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Problems for Japan

The Japanese are becoming increasingly concerned about both the domestic and international ramifications of the Hegg incident. Japanese officials are worried about the effects on Japan's reputation if evidence surfaces that a Japanese flagship was smuggling arms or transporting terrorists. The government also fears that the opposition parties will attack it in the Diet for not having adequate policies on the issue of arms transport. Japan's ban on arms exports is well established, but the government has apparently never addressed the question of whether Japanese ships may carry arms from one foreign government to another. []

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The Hegg incident could also damage Japan's ties with Seoul, just when aid negotiations that have strained relations since last summer seem back on track. If in the Hegg case a Korean company in fact chartered a Japanese ship to take part in illegal activity aimed against a friendly nation, relations between the two could again become tense. The Japanese have long been critical of South Korea's involvement in questionable dealings, particularly when those activities have been conducted on Japanese territory. The kidnapping of a Korean dissident residing in Japan by South Korean intelligence agents in 1973 raised a storm of protest in Japan. []

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China**New Energy Corporation Launched**

In January, the Southeast Energy Corporation started business as an independent entity chartered by the State Council to oversee the development of energy resources in China's southwest provinces. Coal Minister Gao Yangwen serves as chairman of the board of directors, which includes representatives from the Railways and Communications Ministries, provincial leaders from the southwest, and two Chinese banks. [REDACTED]

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The new enterprise, which has tax-exempt status and a registered capital of 200 million yuan, will solicit foreign investment capital. Foreign debts apparently will be insured by the Bank of China and the Construction Bank and will be repaid through compensatory trade and by means of foreign exchange earned primarily through the export of coal and nonferrous metals. The corporation expects to export 400,000 tons of coal to Hong Kong this year. [REDACTED]

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As its first major undertaking, the corporation will develop the Liupanshui Coal Field—one of China's eight target development areas, which currently can produce 6.2 million tons annually and has a projected capacity of at least 10 million tons. The corporation also hopes to develop nonferrous metals, hydropower, and natural fertilizers. If successful, corporate management of energy resource development will likely be tried out in other regions. [REDACTED]

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More Overseas Construction Projects

As many as 10,000 Chinese workers participated in foreign construction projects in 1981. Although the total foreign exchange earned from the projects probably amounted to less than \$100 million, Beijing is currently negotiating contracts that could increase annual earnings substantially. [REDACTED]

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Iraq and North Yemen have been the biggest customers for Chinese labor, but contracts have also been signed with the Philippines, Malta, and Jordan. The Chinese have had difficulty penetrating some of the more lucrative markets such as those in Saudi Arabia and Kuwait because of a lack of diplomatic relations.

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Beijing views the overseas construction market as a means of employing its most abundant resource—manpower—to generate badly needed foreign exchange. Since early 1979 China has established at least 10 national companies having access to a work force totaling more than a million people. The companies offer diverse labor for constructing housing and industrial complexes, roads and harbors, and for manning foreign merchant vessels. At least six provincial-level companies also offer their services abroad. To refute accusations of "coolie labor," Beijing bills its work force as one comprised of skilled laborers, many of whom have had extensive overseas experience with Chinese aid projects. [REDACTED]

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Metals Exports Up Sharply Last Year

The surge in sales of ferrous and nonferrous metals from \$680 million in 1980 to \$1 billion in 1981 in part reflects the trend toward allowing industrial producers to make direct sales abroad. Some metals trade, formerly managed by the Ministry of Foreign Trade, has also been taken over by the provinces and by the China National Metallurgical Import and Export Corporation, formed in 1980. [REDACTED]

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Despite declining steel production and a deemphasis on heavy industry, China has increased metal exports by drawing down its huge stockpiles. Further, China's metals industry is structured to provide products for heavy industry. By selling abroad, China can earn the foreign exchange necessary to buy the thin sheet metals needed to supply the rapidly growing consumer industries. [REDACTED]

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Shortage of Fertilizer Could Hurt Agriculture

A shortage of natural gas feedstock contributed to a drop in China's production of nitrogen fertilizer in 1981, and imports have not offset the shortfall. All but one or two of China's 14 major nitrogen fertilizer plants have had to cut production and construction of eight new plants has been delayed. []

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The Chinese may attempt to solve the problem by converting some plants to the use of naphtha, an alternate feedstock. At least three plants have already been converted, but Western assistance may be needed to convert and upgrade others. Conversion, moreover, is time consuming and fertilizer production will not soon rise. []

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Taiwan Opposition Regrouping From Local Elections

The ruling Kuomintang (KMT) won almost 90 percent of more than 1,000 contested seats in Taiwan's second-stage local elections last month. The non-KMT independents fared poorly, in part because Kang Ning-hsiang, leader of the "mainstream" opposition, opted against actively contesting most races, which, in his view, were at the mercy of local factions. Kang's group did support a few candidates in mayoral and county assembly contests and []

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Despite occasional vote buying and other questionable activities that are traditional in local elections, the KMT appeared to keep the vote counting honest. In Chungli, where rioting erupted in 1977 over alleged ballot box stuffing, the defeat of an independent candidate for mayor by 11 votes triggered only a small, peaceful demonstration. Factional disputes in other areas did produce some violence and one death. []

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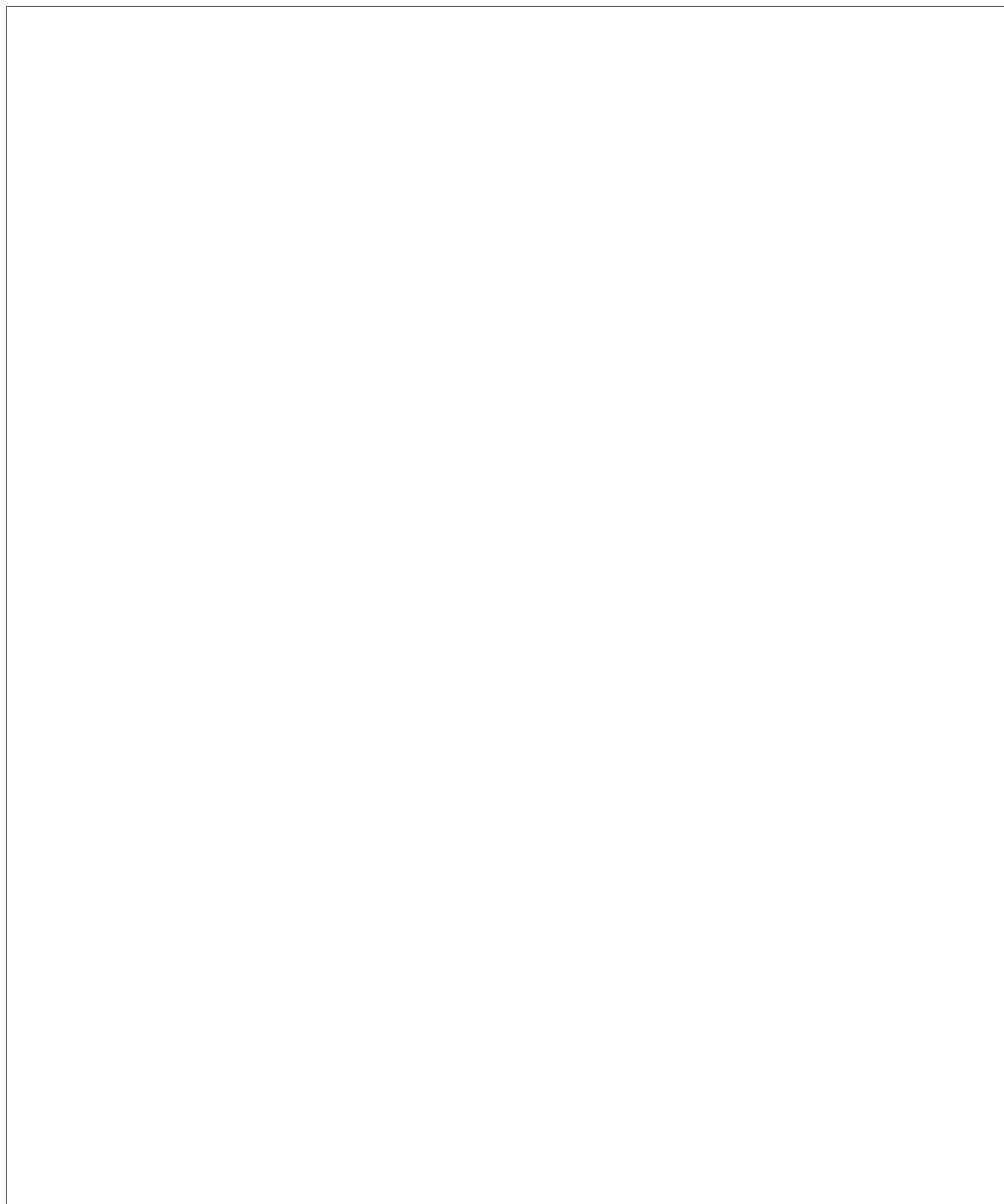
The opposition scored victories in two of the five most important mayoral races, where the younger, better educated voters appeared less tied to local factions. In the three other cities, however, independent candidates lost decisively. []

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Northeast Asia



Japanese-Soviet Talks Yield Meager Results

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At working-level consultations held in Moscow late last month, Japan and the USSR repeated -- and did not budge from -- their established positions on substantive issues. Japan asked for Soviet self-restraint in Poland and reiterated its claims on the northern islands. The Japanese issued an invitation for Foreign Minister Gromyko to visit Tokyo for talks with Foreign Minister Sakurauchi, but the

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Soviets were noncommittal. To avoid direct criticism of Japan, the Soviets charged that the United States was responsible for increasing international tension and forcing the remilitarization of Japan. According to a Japanese Foreign Ministry official, the Japanese were convinced the primary Soviet objective was to split Japan from the West, particularly on the Polish issue. []

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Southeast Asia

Vietnam Shuffles Party Leadership

Nguyen Van Linh, a full member of the Politburo and longtime associate of party leader Le Duan has replaced alternate Politburo member Vo Van Kiet as the new Ho Chi Minh City party secretary, according to Hanoi radio. []

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Vo Van Kiet's demotion is the latest indication that the leadership is seeking scapegoats for failure of the country's economic policies since reunification. He was among those closely identified with these policies, especially the unsuccessful attempt to collectivize the south. His years of prominence in Ho Chi Minh City party affairs and his alignment with Le Duan were apparently insufficient to prevent his demotion. Further acknowledgement of the failure of the regime's economic policies is likely at the Fifth Party Congress scheduled for March, when additional personnel changes may be announced. The congress also will probably ratify last year's relaxation of controls over agricultural production and distribution, a policy backed by Le Duan. []

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Hanoi Reasserts Claim to Paracel and Spratly Islands

An official Vietnamese white paper and a recent series of press articles are probably a delayed rejoinder to Beijing's 1980 claims. Hanoi may also be trying to convince ASEAN of China's expansionist intentions, but both the Philippines and Malaysia lay claim to parts of the Spratlys and will view Vietnam's assertions as a threat to their own interests in the region. The Paracels and Spratlys have strategic interest because they lie adjacent to major merchant and military shipping lanes in the South China Sea and may contain exploitable amounts of oil. []

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The Chinese ousted South Vietnamese troops from the Paracels in January 1974 and have significantly fortified several of the islands since then. []

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All islands in the Spratly group capable of being garrisoned are now occupied: seven by Vietnam, eight by the Philippines, and one by Taiwan. Although China has not renounced its claim to the Spratlys, Beijing is unlikely to take any military action to reinforce its claim. []

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Vietnam Sends More Students and Trainees to USSR and Eastern Europe

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[redacted] the government is using factory bulletin boards and public media to recruit people for industrial training and university education in the USSR and Eastern Europe. [redacted]

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[redacted]

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Vietnamese have been training and studying in the USSR and Eastern Europe since the early 1950s. Agreements signed during 1979-81 appear to have increased greatly the number of slots available, but we have no reliable information on the size of the program. Hanoi has variously given figures of from 19,000 to 40,000 for the number of university students educated so far but has released no numbers on industrial trainees. [redacted]

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[redacted]

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Democratic Kampuchea Formally Rejects Coalition Proposal

One of its major objections to the two-month-old proposal by Singapore for a loose coalition among the three major Khmer resistance groups was that the DK would not control foreign affairs. It also feared the loss of legitimacy of DK governmental institutions. The DK made no counterproposals but suggested that the groups meet again to try to establish a coalition government based on principles that emerged last fall from a series of tripartite talks. Two key principles strongly endorsed by the DK are equal sharing of power at all levels and consensus on major coalition decisions. [redacted]

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Further negotiations are likely to be prolonged. The top DK leadership of Pol Pot, Khieu Samphan, and Ieng Sary remain unwilling to subordinate themselves to another political entity—particularly when their guerrilla forces are the only effective resistance in Kampuchea. This attitude is reinforced by the strong support the DK receives from China, which believes that the Singapore proposal would have weakened the DK guerrilla effort in Kampuchea. China has not pressed the DK to join the coalition [redacted]

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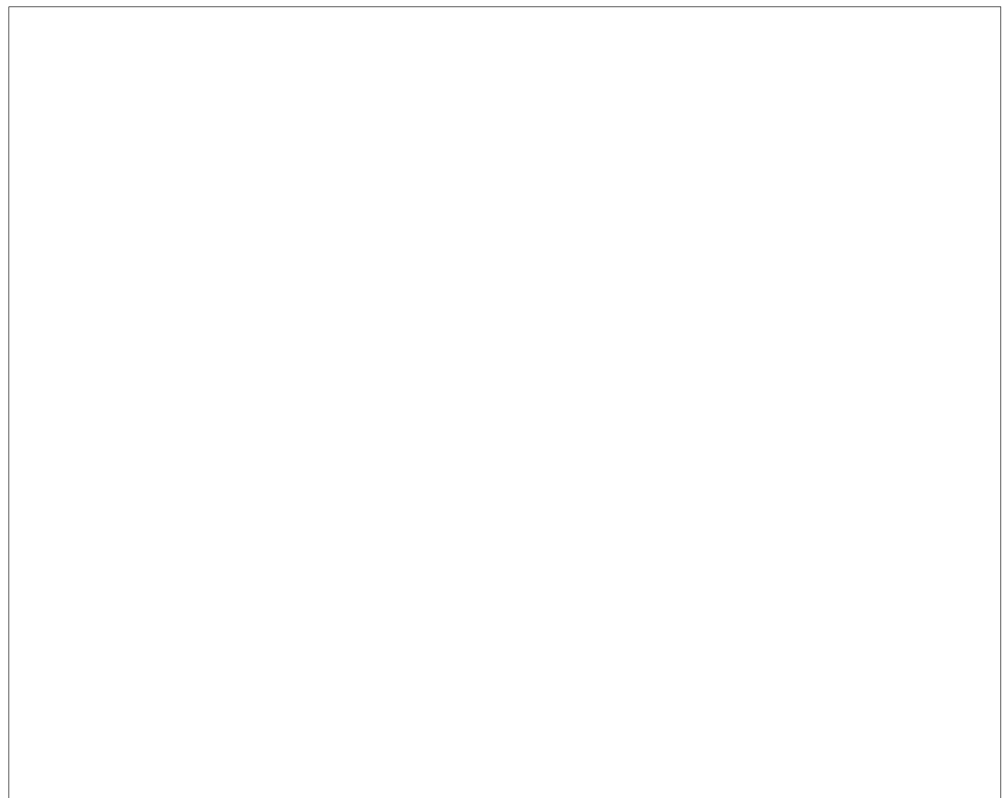
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ASEAN Economic Ministers React to US Policies

The economic ministers at their meeting in Kuala Lumpur from 14 to 16 January were unanimous in their criticism of recent US policies affecting commodity trade but made only cosmetic progress in improving regional economic cooperation. Recent GSA tin stockpile sales drew particular fire after a stormy introductory speech by Malaysian Prime Minister Mahathir, who criticized the effects of US economic policy on the aspirations of less developed countries. The ministers also agreed to seek an increase in the support price of natural rubber, a move the United States has recently voted against in forums of the International Rubber Organization. To improve regional economic cooperation, the ministers approved several regional industrial projects, including a \$370 million soda ash plant for Thailand. In addition, 2,000 new items will receive preferential tariff treatment in intraregional trade—an increase of 30 percent. Even with the additions, however, the volume of trade receiving preferences is small, and the preferences themselves remain modest.

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**Regional
Developments**

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South Korean-Japanese Aid Talks Continue

Officials of both nations agree that negotiations begun last summer on Japan's economic assistance to South Korea are "on track" following working-level discussions in Seoul in mid-January. Both sides hope that all outstanding issues will be resolved through further working-level talks in February or March, paving the way for a meeting of foreign ministers and eventually a summit now projected for midyear. Such key questions as the total level, timing, and mix of the official aid package could drag the negotiations out further. [REDACTED] 25X1

The Koreans made a major concession when they abandoned references linking Japanese aid to Seoul's contribution to northeast Asian security—references the Japanese had found totally unacceptable. Other concessions, however, have not gone far enough for Tokyo:

- The Koreans have modified their original demand for \$6 billion in concessional loans and seem willing to accept a package as low as \$4 billion. This figure is still an eightfold increase in current aid levels and is unacceptably high to the Japanese.
- The Koreans have also given the Japanese some details of the 11 development projects they want funded—although Tokyo has indicated that it will want additional details in future talks. [REDACTED] 25X1

If Seoul provides additional project details—as is likely—Tokyo may prove more flexible in meeting Seoul's demand for a five-year "lump sum" aid commitment. Tokyo has resisted such a commitment, which runs counter to its policy of awarding development aid on a project-by-project, year-by-year basis. The Japanese could, however, follow the example they set in loan negotiations with the Chinese in 1980, when they indirectly indicated their willingness to provide loans over the life of a number of specific projects, with yearly amounts negotiated separately. Seoul and Tokyo still face the questions of aid mix, however, with the South Koreans insisting that the package be limited to low-interest official development assistance and export-import credits only, without any private commercial loans, which they are seeking separately. [REDACTED] 25X1

South Korea and China Initiate Humanitarian Contacts

China now has a homeland visitation program with South Korea similar to one it has with North Korea and has allowed several aged Koreans living in China to visit relatives in South Korea. The program, the culmination of an 18-month effort by the Korean National Red Cross, began last December. Beijing also now permits the exchange of letters between separated families. [REDACTED] 25X1

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Last February Seoul unilaterally adopted an official policy of permitting Chinese fishing boats to take refuge in South Korean waters during bad weather, even offering to supply food, medicine, and fuel if needed. Ever since the offer was passed to Chinese authorities by a US official, well over 120 Chinese fishing boats have sought haven in South Korean waters. There is no evidence of Chinese reciprocity, however. [REDACTED]

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Seoul intends these initiatives— and a brisk bilateral trade (some \$400 million in 1980)— to be confidence-building measures that it hopes will expand into a more formal political relationship and exacerbate Beijing-Pyongyang ties. China, sensitive to North Korean displeasure over such contacts, has avoided publicizing them. Seoul uses the visits as effective, low-cost, pro-South Korean propaganda that can be directed at the 2 million Korean residents in Manchuria. Pyongyang's image among this group is already blemished, and South Korean radiobroadcasts play up the news of relatives in the South and descriptions of South Korean life. Moreover, Seoul is using what it perceives as a mood of conciliation with China to point up to its own people the flexibility of the Chun Doo Hwan government in dealing with a former Communist enemy. For both the domestic and international audience, Seoul can also contrast its efforts with Pyongyang's intransigence and unwillingness to discuss family exchanges and other humanitarian measures that could ease tension on the peninsula and foster reunification. [REDACTED]

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**Calendar of
Coming Events**

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February 1982*3-18 February*North Korean Premier Yi Chong-ok visits Indonesia, Thailand, and Singapore. ☐*Early to Mid-February*Esaki, head of Japanese ruling party council on Japanese trade problems with the United States and EC, to visit Washington. ☐

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16 February

Birthday of Kim Chong-il, eldest son and heir of North Korea's Kim Il-song. (U)

*22-26 February*US-Japan trade talks. ☐

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*28 February*Elections for the Supreme People's Assembly, North Korea's national-level legislative body. ☐

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